

July 7, 2004

Mr. John Lee, Chief
Milk Pooling Branch
California Department of Food and Agriculture
1220 N Street
Sacramento, CA 95814-5621

RE: Alternative Proposal to Amend the Milk Pooling Plan

Dear Mr. Lee:

The attached extract from the current Pooling Plan For Market Milk reflects Dairy Institute's proposed amendments to the plan. This alternative proposal is in response to the Notice of Public Hearing dated June 15, 2004. The Department of Food and Agriculture called the hearing in response to a petition from Clover-Stornetta Farms, Inc.

Summary of Dairy Institute's Proposal

Dairy Institute's position is that fluid milk plants operating within a market should not be disadvantaged relative to each other in the procurement of nearby milk supplies. In particular, the petitioner's proposal identifies a problem where producers in Sonoma and Marin counties incur a higher cost in shipping milk to the closest fluid plant than they do in shipping their milk to more distant markets in the Bay Area counties. The incentive that producers in Sonoma and Marin counties have to bypass the closest fluid milk plants and ship to more distant plants is exacerbated by the application of transportation allowances. Current transportation allowance rates increase the competitive advantage that the Bay Area (and perhaps Solano County) has with respect to the Sonoma-Marin milk supply.

It is our view that the North Bay (Sonoma and Marin counties), the Solano receiving area, and the Bay Area receiving area are each a part of a greater San Francisco Bay Area market, which constitutes the largest deficit fluid milk market in Northern California. While the milk procurement situations experienced by plants in each of these areas may not be identical, they are operating in the same deficit market. Sonoma, Marin, and Solano counties are located somewhat closer to milk supplies than are many of the other counties in the greater Bay Area, and as such, the incentives that are required to move milk into plants in these counties may be different than

what is needed to move milk deep into the Bay Area. However, it is our view that plants in these areas, which compete against each other within the greater Bay Area market and which draw much of their milk supply from Sonoma and Marin counties, should not be disadvantaged with respect to each other in procuring those supplies. Transportation allowances should therefore be granted to producers shipping to fluid milk plants located in Sonoma and Marin counties, as they are to the other plants in the Bay Area or in the Solano receiving areas. The allowance rates for producers from Sonoma and Marin counties that ship to plants in the greater Bay Area market should be adjusted so that the net hauling cost to Sonoma-Marin producers is virtually identical regardless of whether they ship their milk to a fluid plant in Sonoma and Marin counties, Solano County, or Bay Area receiving area counties. In order that milk moves in the most efficient manner, it would also be appropriate for the milk to have a small incentive to move to the closest fluid milk plant.

We have fashioned our alternative proposal using the most recent hauling cost data available to us from CDFA sources (August 2003). In so doing, we had to make some assumptions regarding the cost of hauling milk from Sonoma and Marin counties to Solano County, as that hauling cost was not published. We assumed that the hauling cost into Solano County from Sonoma and Marin counties was identical to the local haul within the Sonoma-Marin area.

In view of the information that we have and the assumptions that we have made, we are proposing that producers shipping to eligible plants in Sonoma and Marin counties (the newly designated North Bay receiving area) receive a transportation allowance equal to 20 cents per hundredweight. In order to equalize the competitive situation with respect to this milk supply, we also propose that the transportation allowance for producers located in Sonoma and Marin counties who ship to the Bay Area receiving area (as currently defined in the pooling plan) be reduced by nine cents so that the new transportation allowance on such shipments be equal to 15 cents per hundredweight.

We understand that the Department will be releasing new hauling cost data (reflecting transportation costs during May 2004) shortly. When more recent hauling cost data becomes available, we will be changing our proposal, in accordance with the principles outlined above, by substituting the newest hauling rate information for the August 2003 information that we used in developing the proposal presented here.

Sincerely,

William Schiek
Economist

Attachment

Attachment -- Pooling Plan Extracts

Section 921.2 Transportation allowances shall be calculated on the constructive miles from the dairy farm to the location of the plant of first receipt, subject to Sections 921 and 921.1, and shall apply to all pool milk.

The following rates shall be utilized in calculation of the allowances:

(a) For plants located in the Bay Area receiving area, which shall consist of the counties of Alameda, Contra Costa, Santa Clara, Santa Cruz, San Francisco, and San Mateo:

(1) *For milk shipments from Sonoma and Marin counties:*
\$0.15 per CWT

~~(1)~~(2) *For milk shipments from all other areas:*
From zero through 99 miles \$0.24 per CWT
Over 99 miles through 199 miles \$0.28 per CWT
Over 199 miles \$0.30 per CWT

(b) *For plants located in the North Bay receiving area, which shall consist of the counties of Marin and Sonoma:*
\$0.20 per CWT

~~(b)~~ (c) For plants located in the Sacramento receiving area, which shall consist of the County of Sacramento:

(1) From zero through 59 miles \$0.09 per CWT
Over 59 miles \$0.12 per CWT

~~(c)~~ (d) For plants located in the Shasta receiving area, which shall consist of the County of Shasta:

(1) From zero through 29 miles \$0.13 per CWT
Over 29 miles through 49 miles \$0.16 per CWT
Over 49 miles \$0.19 per CWT

~~(d)~~ (e) For plants located in the Solano receiving area, which shall consist of the County of Solano:

(1) From zero through 44 miles \$0.15 per CWT
Over 44 miles through 99 miles \$0.20 per CWT
Over 99 miles \$0.25 per CWT

~~(e)~~ (f) For plants located in the Southern California receiving area, which shall consist of the counties of Los Angeles, Orange, Riverside and Ventura:

(1) From zero through 89 miles \$0.09 per CWT
Over 89 miles through 139 miles \$0.43 per CWT
Over 139 miles \$0.58 per CWT

~~(f)~~ (g) For Plants located in the San Diego receiving area, which consist of the County of San Diego:

(1) From zero through 89 miles \$0.09 per CWT
Over 89 miles through 139 miles \$0.43 per CWT
Over 139 miles \$0.58 per CWT